GLOBAL GOVERNANCE ADVISORS

Opinion Letter

April 4, 2024

Incentive Metrics Review for FY2024-2025

Prepared for:

Performance, Compensation & Talent Management Committee

400 Q Street
Sacramento, California 95811

CalPERS California Public Employee Retirement System

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This memo is in response to your request for Global Governance Advisors ("GGA"), in its role as CalPERS' Board compensation consultant, to provide a review of the current metrics included within the CalPERS Annual Incentive program for 2023-2024 and provide insights on potential improvements for Fiscal Year 2024-2025. Similar to past years, this letter will outline GGA's views on the relative weighting between Quantitative and Qualitative performance within the Annual Incentive formula as well as potential changes to the Total Fund/Asset Class investment performance expectations, Enterprise Operational Effectiveness, Investment Office CEM Results, Customer Service and Stakeholder Engagement metrics used within the plan.

Background

The current metrics used within the Annual Incentive program were first introduced as part of a new annual incentive plan for the 2016-2017 fiscal year with shared organizational metrics that aligned awards for all positions to the following performance areas:

- Fund Performance
- Enterprise Operational Effectiveness
- Investment Office CEM Results
- Customer Service
- Stakeholder Engagement

CalPERS continues to use these metrics but, in recent years, proactively set higher performance expectations for the Customer Service and Stakeholder Engagement metrics. Updates have also been made to the performance expectations for Total Fund value add performance in recent years to provide challenging, yet fair hurdles for Incentive-eligible team members at CalPERS to strive to achieve. It should also be noted that since Fiscal Year 2019-2020, CalPERS has not placed any weighting on Asset Class investment performance for relevant team members working in various asset classes with investment performance measures remain solely based on Total Fund results.

In general, each of the metrics used within the incentive plan have generally worked for CalPERS, and GGA has not had any concern with their placement and use within the annual incentive program.

Timeline

Overall, GGA supports CalPERS' continued use of these five performance areas and will return to this Performance, Compensation and Talent Management ("PCTM") Committee in June with specific performance metrics and hurdle recommendations for Fiscal Year 2024-2025 based on updated back testing and stress testing.

GGA Recommendations for Consideration

Based on market research and rationale outlined in the attached Supporting Appendices, GGA maintains that CalPERS' Annual Incentive metrics are not broken and that only small tweaks are required moving forward. GGA outlines the following recommendations for CalPERS' consideration, which have been broken down into decisions falling under Board authority and those that can be followed up by the CEO and CIO under their Board-delegated authority:

Recommendations to be Considered Under Board's Authority:

1. Continue to measure Stakeholder Engagement under the Annual Incentive Plan to align with the strategic plan, but adopt the proposed changes in data collection methodology (see Appendix E).
2. Continue to monitor trends as it relates to the adoption of Climate Change and Environmentally-focused objectives within Annual Incentive plans in the public pension fund industry and consider if the incorporation of such a performance metric might make sense in future years. Adoption of any specific metrics is not recommended at this time.

Recommendations to be Considered by CEO and CIO under Board Delegated Authority:

1. For investment staff (including the CIO), increase the weighting on Quantitative performance to 75% of the Annual Incentive formula, an increase from the current 60% weighting. GGA recommends increasing the weighting on Total Fund value add performance from 50% to 65% for all investment professionals.
2. With the eventual onboarding of a new CIO, work to evolve the CalPERS Annual Incentive plan design in future years to support and approve the addition of an Asset Class investment performance weighting within the Annual Incentive formula for investment staff working in specific asset classes. This would put CalPERS more in-line with its public pension fund peers who all have an Asset Class component to their Annual Incentive designs. It also will provide better line-of-sight and reward team members working in higher performing asset classes on annual basis which will provide greater alignment between pay and performance within the investment team. Over time, CalPERS should look to phase in more weighting towards Asset Class performance with a corresponding decrease in Total Fund performance for these team members.
3. For the COO, CFO and General Counsel, consider placing some weighting on Total Fund investment performance (no higher than 15%) to align closer with the CEO and most other Annual Incentive-eligible staff. This is a common practice observed in the public pension fund industry with CalSTRS for example placing a 15% weighting on Total Fund performance for its COO and 20% weighting on Total Fund performance for its CFO. GGA is not proposing to include a Total Fund investment performance component for the Chief Actuary position as it is not commonly observed in the marketplace given its influence over determining required actuarial rates of return and monitoring overall funding levels which could create a perceived conflict of interest.

Conclusion and Next Steps

We look forward to discussing this letter at the April meeting and following up with more defined performance metrics and performance expectations at the June meeting. If you have any questions on the contents within this letter, please let us know.

Sincerely,

Global Governance Advisors

Peter Landers Senior Partner	Brad Kelly Partner

cc: Brittany Emmons, CalPERS

Supporting Appendices

Market Research and Rationale Going Forward

Overall, GGA is maintaining consistency in its advice and approach and this memo is intended primarily for information purposes with GGA coming back to the Performance, Compensation and Talent Management ("PCTM") Committee in June with formal recommendations for Fiscal Year 2024-2025 performance metrics and hurdles provided at that time.

Appendix A: Typical Performance Metrics Observed in the Pension Fund Industry

In GGA's consulting experience working with countless pension funds of all sizes across North America, GGA observes the following performance metrics that are commonly found within Annual Incentive programs:

- Relative Total Fund Return vs. Market Benchmark (measured over one and/or rolling multi-year performance periods),
- Relative Asset Class Returns vs. Market Benchmark (measured over one and/or rolling multi-year performance periods),
- Execution against Strategic Plan Objectives (namely for the CEO), and
- Individual Performance Evaluation (typically Qualitative in nature).

In addition to these common metrics, many pension funds also report the use of:

- Customer Service (i.e., Member Services or Investment Office), and
- Stakeholder Engagement (as measured through surveys and feedback).

Other metrics that are less commonly found, but used in some cases include:

- Absolute Return objectives for Total Fund and/or Asset Class performance
- Total Fund Costs,
- Internal Operational Metrics, and
- Environment-Related, or more broadly, Environmental, Social, and Governance (ESG) Metrics.

Analysis of the types of incentive metrics used at various North American pension funds within CalPERS' peer group is provided in **Appendix F**.

Overall, the performance metrics used by CalPERS cover many important areas at the organizational level by focusing on Investment performance (both from a returns and cost perspective) as well as Customer Service and Stakeholder Engagement which are important areas of performance on the Pension Administration side of CalPERS. The specific areas measured for Customer Service and Stakeholder Engagement around Benefit Payment Timeliness, Customer Satisfaction, as well as meeting the needs of CalPERS' stakeholders and keeping them informed also align with what GGA observes at other North American pension funds. In our opinion, the incorporation of a measure of Operational Effectiveness through the Overhead Operating Costs as a Percentage of Total Operating Costs measure is a market leading practice which provides a way of measuring how the fund is managing its non-investment costs.

GGA has previously discussed with the PCTM and full Board the issue of asset class performance and how it should be strategically implemented and incentivized considering the historical setup of the asset classes and their purpose within the overall investment strategy and portfolio at CalPERS which focuses less on alpha generation than typical pension funds in the marketplace. GGA believes that this is a fair point. However, as highlighted in the table below, we would like to remind the PCTM Committee members that CalPERS continues to be overweighted on Total Fund performance within its Annual Incentive formula for Asset Class investment professionals when compared to the broader pension fund marketplace and therefore should encourage CalPERS' Board members to support the allocation of a meaningful portion of the Annual Incentive for Asset Class professionals to the performance of their asset class when the new CIO and other members of the Executive Leadership Team have a proposed path forward and a reasonable transition plan to put in place.

Comparison of CalPERS to Marketplace - Total Fund vs. Asset Class Performance

CalPERS		Pension Fund Marketplace	
Total Fund Performance	Asset Class Performance	Total Fund Performance	Asset Class Performance
100%	0%	33%-40%	60%-67%

With the above observation, GGA notes the lack of weighting on Asset Class investment performance within the Annual Incentive formula for investment professionals working within a specific asset class is the biggest misalignment we see to current best practices. GGA understands that CalPERS moved toward a Total Fund approach in Fiscal Year 2019-2020 in the spirit of breaking down silos it had identified within its Investment office. Since that change, focusing all investment staff towards solely meeting the Total Fund performance expectation, while aiding in breaking down silos, has led to CalPERS' misalignment to a competitive marketplace which notably includes funds such as CalSTRS. GGA has always held that the reason for this is because there is greater line-of-sight and control that an investment professional working within a specific asset class has over the performance of that asset class and incentives should always retain a strong link between performance expectations and elements that participants have connections and influence in enhancing. Pensions should always reward participants when performance is high and penalize them when performance is low. However, if all investment professionals are rewarded solely on Total Fund performance, there is much less ability to differentiate between higher and lower performers on the team or recognize and reward certain asset classes that have materially or disproportionately contributed toward the positive performance of the fund.

As a general trend, North American pension funds typically incorporate Total Fund performance within their Annual Incentive formulas at a smaller weighting than Asset Class performance for investment professionals working within specific asset classes. The purpose for including a focus on Total Fund Performance is that it helps to encourage all investment professionals to work together to achieve their Total Fund objectives because a material portion of their Annual Incentive is still tied to a central/common Total Fund result. Positions such as CEO, CIO and Deputy CIO, are normally expected to focus on overall enterprise performance and therefore their investment return objectives are typically focused solely on Total Fund performance or a combination of the performance of all asset classes.

Pension funds have also helped focus their staff on Total Fund returns by adopting Long-Term Incentive Plans ("LTIPs") that are 100% focused on forward-looking Total Fund investment performance over a longer period of time (typically 3-4 years in length) for all LTIP-eligible participants. Plans such as this are very effective in collectively aligning investment and executive staff in achieving Total Fund performance expectations over the longer-term, strengthening sustainability and supporting each other toward earning a meaningful LTIP payout at the end of each extended performance period. Our opinion is that CalPERS' LTIP will have this impact going forward as it begins to annually complete the associated long-term performance cycles and provide the potential to generate additional payout opportunities for eligible plan participants.

Appendix B: Weighting between Quantitative & Qualitative Performance

Since the commencement of our engagement with CalPERS, GGA has fielded concerns that too much weighting is placed on Qualitative performance within the CalPERS incentive plan, which is tougher to measure, and reward, realized performance. As well, truly Qualitative measures can possibly increase headline risk because it is often associated with subjective judgments which can also open the fund up to criticism and increased levels of scrutiny.

The following table shows the results of our high-level review of the current weighting between Quantitative and Qualitative performance for Annual Incentive-eligible staff at CalPERS.

Quantitative vs. Qualitative Performance at CalPERS – Observations

Participant/Group	Observation
CEO	Quantitative weighting is competitive
CIO	Quantitative weighting is below market
COIO	Quantitative weighting is below market
All Investment Management Positions	Quantitative weighting is below market
General Counsel	Quantitative weighting is competitive
Chief Actuary	Quantitative weighting is competitive
CFO	Quantitative weighting is competitive
Chief Operating Officer	Quantitative weighting is competitive
Chief Health Director	Quantitative weighting is competitive

More specifically, recent opinions emerged pertaining to a belief that one reason that CalSTRS incentive payouts have been higher than CalPERS over the last few years is because it has a higher proportion of subjective, qualitative elements within its annual incentive plan. As the table below points out, many non-investment roles do have a higher qualitative weighting at CalSTRS, but it should be noted that three top CalPERS' investment roles have a lower weighting on Quantitative performance and therefore Annual incentive payouts are based on a lower level of realized objective performance than CalSTRS for these key investment roles.

Quantitative vs. Qualitative Weighting at CalPERS vs. CalSTRS

Participant/Group	CalPERS		CalSTRS	
	Quantitative	Qualitative	Quantitative	Qualitative
CEO	75%	25%	30%	70%
CIO	60%	40%	75%	25%
Deputy CIO	60%	40%	80%	20%
Investment Management – Most Asset Classes	60%	40%	80%	20%
Investment Management – Strategy & Risk*	60%	40%	60%	40%
Investment Management – Sust. Invest*	60%	40%	55%	45%
Investment Management – Innovation	60%	40%	60%	40%
General Counsel	50%	50%	n/a	n/a
Chief Actuary	50%	50%	0%	100%
CFO	50%	50%	20%	80%
COO	50%	50%	15%	85%

* GGA notes that Risk professionals at CalSTRS now fall under the same measures and weightings as professionals working in Strategy & Risk while Engagement professionals now fall under the same measures and weightings as Sustainable Investments & Stewardship Strategies ("Sust. Invest" above).

GGA notes that the investment positions within CalPERS continue to be mismatched to the general market: Primarily because the market practice for investment positions is to place 70% to 75% weighting on Quantitative performance within the Annual Incentive formula with no more than 25% to 30% weighting allocated to the Qualitative performance of the individual in their role. An adjustment to increase the weighting on Quantitative performance would better align these positions with the market, including CalSTRS.

While the weighting on Quantitative performance is competitive for non-investment roles, GGA continues to highlight our observation that many of the CEO's direct reports (i.e., COO, CFO, General Counsel, etc.) continue to have no weighting on Total Fund investment performance against the benchmark. Typical market practice is to at least apply some weighting (15% to 25%) on Total Fund performance which encourages greater teamwork, diminishes silos between Investment and Non-Investment staff, and aligns all Incentive-eligible staff to Total Fund performance. It also helps maintain a meaningful overall weighting on Quantitative performance within the Annual Incentive formula, making the results less subjective and easier to defend if challenged by plan stakeholders, media, or the general public. A more detailed breakdown of the weighing on Quantitative vs. Qualitative performance against typical market practice is provided in **Appendix G.**

Appendix C: Investment Performance Expectations

Two years ago, GGA conducted a historical probability analysis of the last 5 to 10 years which showed a consistent pattern relating to Total Fund and Asset Class investment performance expectations. Based on the results of this analysis and understanding of common market practice, the CalPERS board approved GGA's recommendation to narrow the performance range and increase the threshold performance expectation for Total Fund value add performance.

GGA's observation was that the Total Fund hurdles were set with a wide range that hindered its overall effectiveness meaning that CalPERS' investment professionals were usually guaranteed to always achieve Threshold performance but were never able to achieve Maximum performance. This meant that performance tended to consistently fall in between Threshold and Target on an annual basis but never came close to the defined Maximum level. The observed probabilities showed that the original Threshold hurdle was set too low at a level that participants were guaranteed to surpass on an annual basis (even if no value add was generated against the benchmark). Likewise, the Maximum hurdle was so far out of reach that participants were also guaranteed to never meet it on an annual basis or multi-year basis. Since this assessment and recommended adjustment, the base Threshold performance expectation is to meet the market benchmark and investment performance incentives will now only pay out once Total Fund Performance exceeds the benchmark and delivers value add to the fund.

To also positively incentivize staff to strive for higher performance, GGA recommended that the Maximum performance hurdle be lowered to an expectation that is more probable, realistic, and motivating for the plan participants. It is our opinion that, going forward, this narrower rage will help enhance the sustainability of the fund by providing a higher probability for annual value add contributions and further incentivize staff to strive for maximums that are now realistically within their reach. GGA will be conducting updated probability analysis in advance of the June 2024 PCTM meeting and will recommend any adjustments to the hurdle rates, if needed, at the June PCTM meeting.

Appendix D: Enterprise Operational Effectiveness

In recent years, questions arose related to the Enterprise Operational Effectiveness metric used within the Annual Incentive formula:

(i) Should Operating Costs include lump sum retirement payments?

(ii) Should the metric used for incentives be the same as a relevant metric focused on as part of CalPERS's strategic plan?

Following GGA's advice, the Board approved GGA's recommendation to exclude annual lump sum retirement payments from the calculation of Overhead Costs when measuring Enterprise Operational Effectiveness performance as well as to maintain consistency between the operational metric outlined in the new strategic plan at the time and the metric used in the annual incentive award program.

GGA's response to the two questions and the rationale for our recommendations was as follows:

Question #1 – Including Lump Sum Retirement Payments

GGA understood that lump sum retirement payments paid out to individuals retiring each year were normally included within the Operating Cost calculation used in determining Annual Incentives. These lump sum payments are accumulated by retiring employees based on all their years employed anywhere within the California public service and are not limited to just their specific service time within CalPERS. However, CalPERS normally assumed the full liability to make these payments when they came due upon retirement.

GGA noted that in an ideal situation, CalPERS would only be liable for the lump sum retirement payment tied specifically to time employed at CalPERS and would make sense to include this specific amount within its Operating Cost formula. However, that was not the case, and it would be an unreasonable administrative undertaking to separate out CalPERS service time from time spent working within other areas of the California public service for every retiree. GGA observed that in similar situations, organizations typically exclude the lump sum retirement payment from the Operating Cost calculation because the determination of time inside and outside of their organization was outside of their control. Therefore, CalPERS' staff should not be penalized by ballooned retirement payments when calculating annual Operating Cost performance.

Question #2 – Using the Same Metric for Incentives and Strategic Plan

GGA understood that as part of the new strategic plan for 2022 to 2027 there was discussion around tweaking the way in which CalPERS measures Enterprise Operational Effectiveness improvements. Historically, a target of 1.5% to 2% reduction in Overhead Costs was set annually under the old strategic plan, but the new strategic plan called for a reduction in Overhead Costs as a percentage of Total Administrative Costs compared to a baseline year.

In GGA's experience, expecting CalPERS to target a consistent reduction in costs each year is not sustainable because eventually it will only be able to cut so many costs before it starts to affect service levels, quality, investment returns, and employee morale. Growing and evolving organizations normally must take on additional costs in order to grow and scale their organization which means that at times, reducing costs may not be feasible. GGA noted that a better way of measuring performance in this area should be to measure the ratio of certain costs (such as Overhead) over total costs for the organization and ensure that this ratio remains within a reasonable range on an annual basis. Our experience is that this practice normally allows for the inevitable increase in Overhead Costs when organizations grow and helps ensure that they do not grow disproportionately to total administrative costs.

GGA also noted that we are a proponent of tying incentive metrics directly to metrics outlined within the strategic plan to ensure staff's Incentive compensation is tied directly to success against approved strategic plan objectives to ensure alignment of interests. In this regard, GGA noted that it would have no concern with adjusting the metric used under the Annual Incentive formula if a new metric/methodology was approved for measuring Operational Effectiveness at CalPERS as part of the 2022-2027 strategic plan.

GGA will be conducting probability analysis of historical Enterprise Operational Effectiveness results in advance of the June 2024 PCTM meeting and will recommend any adjustments to the hurdle rates, if needed, at the June PCTM meeting.

Appendix E: Stakeholder Engagement

It is unclear why, but in recent years CalPERS has been receiving lower response rates from certain stakeholder groups to the point that there is concern if there were enough responses from certain groups to be statistically significant in determining performance under the Annual Incentive plan. Given this scenario, CalPERS' Policy Research and Data Analytics Division conducted analysis and due diligence to enhance CalPERS' data collection methodology and ensure CalPERS' methodology is statistically sound and representative of its stakeholder's views and opinions. The Division conducted this work throughout 2023 and into 2024 with the goal of making updates to the survey stakeholder groups for the Fiscal Year 2023-2024 survey to ensure a more targeted and representative outreach to each of its stakeholder groups. GGA will be working with the Division to implement any survey weighting methodology changes for Fiscal Year 2024-2025. The idea behind this refocused approach should lead to improved response rates this fiscal year and into the future. The agreed upon material stakeholder perception survey methodology changes moving forward include:

- Stratifying the active and retired member survey population equally across employer types (State, School, PA)
- Among Active Members, targeting a response rate of at least 5%
- Among Retired Members, targeting a response rate of at least 20%
- Among Employer Operations, targeting a response rate of at least 5%
- Among Employer Leaders, targeting a response rate of at least 5%
- Applying equal weighting between the two Member groups and two Employer groups to ensure the results of any one group do not skew the results one way or the other.
    - GGA notes that Stakeholder Association representatives will also be surveyed, but due to the small sample size of respondents, their responses will be analyzed separately from the other four groups.

As part of GGA's work, we will be back testing historical Stakeholder Engagement results under the new survey weighting methodology to better understand how performance would have differed in past years. The results of this historical analysis will be mapped against GGA's standard probabilities of attainment and presented at the June PCTM meeting with updated performance hurdles for this metric that are fair and reasonable given the change in underlying survey methodology.

Appendix F: Incentive Metrics Used by Identified CalPERS Pension Peers

GGA notes that most of CalPERS' identified pension fund peers provide some level of disclosure on the design of their Incentive programs, which is highlighted in the table below.

	Company	Areas of Performance Considered									
		Total Fund	Asset Class	Personal Performance	Total Fund Costs	Customer Service	Stakeholder Engagement	Operational	Strategic Execution	Environment Related	Other
	CalPERS	√		√	√	√	√	√	√		
(1)	BCIMC	√	√	√							
	Caisse	√	√	√			√		√	√	√
(2)	CalSTRS	√	√	√					√		
	CPPIB	√	√	√				√			√
	HOOPP	*	*	*	*	*	*	*	*	*	*
	OMERS	√	√	√			√		√	√	√
	OTPP	√	√	√		√		√	√	√	√
(3)	STRS Ohio	√	√								
	SWIB	√	√	√				√			√
	Texas Teachers	√	√	√		√		√	√		
	VRS	*	*	*	*	*	*	*	*	*	*
	Prevalence	***100%***	***100%***	***89%***	***0%***	***22%***	***22%***	***44%***	***56%***	***33%***	***56%***

"*" Indicates that information not disclosed.

Notes:

(1) BCIMC does not administer pension benefits as part of its mandate, so the incentive program is largely weighted towards investment performance, even for executives.

(2) Customer Service and Stakeholder Engagement are considered indirectly at CalSTRS as part of Strategic Execution and do not have specific weightings allocated.

(3) Incentive pay only offered to investment professionals, so the incentive program is weighted towards investment performance.

Appendix F: Incentive Metrics Used by Identified CalPERS Pension Peers cont'd.

Performance Area	CalPERS Metric Used	Examples of Performance Metrics
Total Fund	- Total Fund Return Relative to Benchmark - Total Fund Return Relative to CEM US Benchmark	- Total Fund Return Relative to Benchmark - Absolute Total Fund Return - Total Fund Volatility
Asset Class		- Asset Class Return Relative to Benchmark Index - Absolute Asset Class Return
Total Fund Costs	- Total Fund Costs Relative to CEM US Benchmark	- n/a
Customer Service	- Benefit Payment Timeliness - Customer Satisfaction	- Customer Satisfaction with Business Processes - Peer Service Level Comparison Relative to CEM Results - Service Excellence Index - Comprehensive Annual Review of Performance Factors Relating to the Business & Operational Management of the Investment Branch - Survey of the CIO, Deputy CIO & Investments Staff Rating of Implementation Success & Customer Service
Stakeholder Engagement	- Score against Annual Engagement Survey	- Employee Engagement Survey & Employee Turnover - Comprehensive Annual Review of Performance Factors o Investment Office Engagement Strategy & Outreach - Develop major stakeholder relationships around the world - Act as brand protector and ambassador, grow geopolitical footprint

Appendix F: Incentive Metrics Used by Identified CalPERS Pension Peers cont'd.

Performance Area	CalPERS Metric Used	Examples of Performance Metrics
Operational	- Total Overhead Operating Costs as % of Total Operating Costs	- Productivity Relative to CEM Results - Integrated technology, data, and knowledge advantage initiative
Strategic Execution	- Business Objectives	- Performance against Organizational Leadership Priorities - Board Evaluation of Status of Strategic Plan & Objectives - Annual Strategic Execution - Board or CEO Evaluation of Strategic Plan Performance
Personal Performance	- Leadership	- Individual performance against personal objectives - Developing subordinate staff and recruit/retain talent - 360 Leadership Score - Contribution to Short & Long-Term Areas of Focus - Comprehensive Review of Personal Performance Factors
Environmental - Related		- Adopting Best-in-Class Climate-Related Financial Disclosure - Increasing Low-Carbon Assets - Reduce Carbon Intensity of Portfolio - Management of Climate Change Initiatives - Deliver on ESG Initiatives
Other		- Developing organizational structure, systems, and processes - Relationships with Board, Committees, Direct Reports - Economic Development of Local Economy - Culture Initiatives - Enhancing Technological Capabilities - Talent Development Initiatives

Appendix G: Quantitative vs. Qualitative Weighting at CalPERS vs. Market

Participant/Group	CalPERS		Pension Fund Marketplace	
	Quantitative	Qualitative	Quantitative	Qualitative
CEO	75%	25%	50%-80%	20%-50%
CIO	60%	40%	70%-75%	25%-30%
Deputy CIO	60%	40%	70%-75%	25%-30%
COIO	60%	40%	70%-75%	25%-30%
All Investment Management Positions	60%	40%	70%-75%	25%-30%
General Counsel	50%	50%	50%-60%	40%-50%
Chief Actuary	50%	50%	50%-60%	40%-50%
CFO	50%	50%	50%-60%	40%-50%
COO	50%	50%	50%-60%	40%-50%

GGA notes the following points relating to the table above:

- For senior non-investment roles at CalPERS, the weighting on Quantitative performance within the Incentive program is on the lower end, but still within market norms.
- CEO performance is showing some shift towards a higher weighting on Qualitative performance in recent years than what has been observed historically in the pension fund marketplace.
- Investment-related roles at CalPERS tend to have less weighting on Quantitative performance than what is observed in the market.

Appendix H: GGA's Detailed Recommendations for Consideration

- Areas highlighted in **GREEN** represent a proposed increase in weighting from Fiscal Year 2023-2024.
- Areas highlighted in **RED** represent a proposed decrease in weighting from Fiscal Year 2023-2024.

Participant/Group		Quantitative						Qualitative	
		Total Fund	Asset Class	Enterprise Operational Effectiveness	INVO CEM	Customer Service	Stakeholder Engagement	Leadership	Business Objectives
CEO	Proposed	15%	*	20%	10%	15%	15%	25%	*
	Current	15%	*	20%	10%	15%	15%	25%	*
CIO	Proposed	65%	*	*	10%	*	*	12.5%	12.5%
	Current	50%	*	*	10%	*	*	20%	20%
Deputy CIO	Proposed	65%	*	*	10%	*	*	12.5%	12.5%
	Current	50%	*	*	10%	*	*	20%	20%
Asset Class Investment Management Positions*	Proposed	50%	15%	*	10%	*	*	12.5%	12.5%
	Current	50%	*	*	10%	*	*	20%	20%
General Counsel	Proposed	15%	*	15%	10%	5%	5%	20%	30%
	Current	*	*	20%	10%	10%	10%	20%	30%
Chief Actuary**	Proposed	*	*	20%	10%	10%	10%	20%	30%
	Current	*	*	20%	10%	10%	10%	20%	30%
CFO	Proposed	15%	*	15%	10%	5%	5%	20%	30%
	Current	*	*	20%	10%	10%	10%	20%	30%
COO	Proposed	15%	*	15%	10%	5%	5%	20%	30%
	Current	*	*	20%	10%	10%	10%	20%	30%

* GGA is recommending that CalPERS place a small weighting on Asset Class investment performance for investment team members working in specific asset classes. That said, given the upcoming appointment of a new CIO, GGA understands that CalPERS may choose to defer making any changes to this weighting until the new CIO is settled in and able to contribute to this decision. As an alternative, CalPERS could increase the weighting on Total Fund investment performance for Asset Class professionals to 65% to align Quantitative performance weighting closer to typical pension fund/investment management industry practice.

** GGA is not proposing to include a Total Fund investment performance component for the Chief Actuary position as it is not commonly observed in the marketplace given the uniqueness of the role in influencing required actuarial rates of return and monitoring overall funding levels which could create a perceived conflict of interest.